

Our view Research update

26 February 2020

Covid-19 market impact

Overview

- From late December 2019 a new virus outbreak, officially called Covid-19 (a.k.a. “coronavirus”), emerged out of Wuhan, China.
- To date this outbreak was focused on China which accounted for 96.7% of 80,423 confirmed cases and 98.4% of 2,708 reported deaths (as at February 26)
- However, in recent weeks we have seen notable growth in cases particularly in South Korea and Italy as well as Japan, Iran and elsewhere in Europe.

Why did the outbreak affect markets?

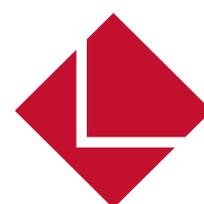
- Investors fear that the outbreak will further weaken the global economy not just China.
- Fears of spreading elsewhere into Europe would further weaken an already weakly growing European economy.
- There are now substantiated fears that this may upset global supply chains with companies such as Apple calling out revenue misses and potential difficulty in getting iPhones to market given factory shutdowns in China.
- Markets had arguably been rallying in recent weeks despite virus concerns on the assumption that it would be contained. This had seen share market valuations become stretched which heightened the damage we have seen in the last week when investor sentiment weakened.

Implications for your portfolio

- Defensive assets like bonds and defensive subsectors such as property have benefitted.
- Our portfolios as of the most recent SAA review are less than 50% hedged for most risk profiles. These exposures have benefitted from the recent falls in the Australian dollar.
- We take a long-term approach to investing in emerging markets with their weight in portfolios reflecting their higher expected risk. Clients are not exposed to undue loss as a result.
- You **will** see more alarmist headlines such as “global markets lose \$x trillion” or “the ASX falls \$y billion”
 - These headlines are literally true but are unhelpful and misleading. By triggering fear, they help news websites generate traffic and ad sales.
 - However, **negative** daily or even weekly returns in markets can happen often.
 - Taking a longer-term perspective is key. Holding for longer periods of time substantially improves the likelihood of a positive return as the below shows for the Australian share market over the longer term.

All Ordinaries total returns (1980 to 2020)

Time period	Positive return %	Negative return %
Daily	54.0	46.0
Weekly	57.7	42.3
Monthly	63.7	36.3
Quarterly	69.4	30.6
Yearly	72.5	27.5
Rolling 10 years	100	0



LONSDALE

Ongoing Monitoring and action

Our base case was for the outbreak to be gradually contained in the near term with its impact on the economy limited to weakness in the March quarter and potentially the June quarter of this year.

Authorities also stand ready to commit to further stimulus with announcements of new Chinese fiscal stimulus being flagged while the US Federal Reserve has announced its willingness to be proactive should the US economy soften.

As a possibility we raised in our previous update, news on the virus did contribute to higher market volatility. The scale of the economic shutdown is also likely to see poor economic data with early warning signs in “flash” Composite PMIs for the US (reflecting the weakness in trade and production as activity has softened).

Currently Australian equity market volatility is at 12.6% (annualised) while portfolio composite proxies (using market index benchmarks) are also low. Periods of heightened volatility tend to coincide with share market corrections. Today's levels are below SAA thresholds and longer-term historical averages. All else being equal this would suggest leaving portfolios unchanged.

Sources

John Hopkins CSSE <https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6> (Date accessed: 25 February 2020)

Hamblin, James, “You're Likely to Get the Coronavirus” *The Atlantic* <https://www.theatlantic.com/health/archive/2020/02/covid-vaccine/607000/> (Date accessed: 25 February 2020)

Roberts, Michelle, “Coronavirus: Could it become pandemic?” *BBC* <https://www.theatlantic.com/health/archive/2020/02/covid-vaccine/607000/> (Date accessed: 26 February 2020)

Prepared by – Cameron Curko

Approved By – Matt Olsen

Important Information

This report is prepared by the IOOF Research team for:

Bridges Financial Services Pty Limited ABN 60 003 474 977 AFSL 240837, Consultum Financial Advisers Pty Ltd ABN 65 006 373 995 AFSL 230323, Elders Financial Planning ABN 48 007 997 186 AFSL 224645, Financial Services Partners ABN 15 089 512 587 AFSL 237 590, Millennium3 Financial Services Pty Ltd ABN 61 094 529 987 AFSL 244252, RI Advice Group Pty Ltd ABN 23 001 774 125 AFSL 238429, Shadforth Financial Group Ltd ABN 27 127 508 472 AFSL 318613 ('Advice Licensees').

This report is not available for distribution outside Australia and may not be passed on to any third person without the prior written consent of the Advice Licensees.

Declaration of interests: The Advice Licensees and/or its associated entities, directors and/or its employees may have a material interest in, and may earn brokerage or other fees from, any securities or other financial products referred to in this report, or may provide services to, do business with or seek to do business with the company referred to in this report. The Advice Licensees and associated persons (including persons from whom information in this report is sourced) may do business or seek to do business with companies covered in its research reports. As a result, investors should be aware that The Advice Licensees or its associates may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as a single factor in making an investment decision. A list of material interests of The Advice Licensees and its associates, and product issuers referred to in our research reports, can be found on the following IOOF website link http://www.ioof.com.au/adviser/investment_funds/ioof_advice_research_process

The information contained in this report is for the use of advisers of AFSL entities authorised by The Advice Licensees in writing.

General Advice Disclaimer: The information in this report is general advice only and does not take into account the financial circumstances, needs and objectives of any particular investor. Before acting on the general advice contained in this report, an investor should assess their own circumstances or seek advice from a financial adviser. Where applicable, the investor should obtain and consider a copy of the prospectus or other disclosure material relevant to the financial product before making any investment decision to acquire a financial product.

It is important to note that the price or value of financial products go up and down and past performance is not an indicator of future performance.

Analyst Certification: This report has been prepared and issued by the IOOF Managed Funds Research team members, who certifies that: (1) all of the views expressed in this report accurately reflect his or her personal and professional views about any and all of the subject securities or issuers; and (2) no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed herein.

The writers, and/or entities in which I have a pecuniary interest, None.

The Advice Licensees believe that the information contained in this report has been obtained from sources that are accurate but has not checked or verified this information. To the extent permitted by the law, The Advice Licensees, its related bodies corporate, its directors, officers, employees, authorized representatives and agents accept no liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of the information contained in this report, or in relation to, the contents of or omissions in this report.

This report is current as at the time of publication but may be superseded by future publications. You should confirm the currency of this report and obtain summary information about: material interests and Research analysts' holdings; the qualifications and experience of the IOOF research team; and the coverage, criteria, methodology and spread of ratings from http://www.ioof.com.au/adviser/investment_funds/ioof_advice_research_process

If an investor requires access to other research reports they should ask their adviser who can obtain these from their dealer group intranet.

Lonsdale Financial Group Ltd | ABN 76 006 637 225 | AFSL 246934 | www.lonsdale.com.au | Part of the IOOF group.

Lonsdale is a company within the IOOF Group of companies consisting of IOOF Holdings Limited ABN 49 100 103 722 and its related bodies corporate.

This is general advice only and does not take into account your financial circumstances, needs and objectives. Before making any decisions based on this document, you should assess your own circumstances or seek advice from a financial adviser. Examples are illustrative only and are subject to the assumptions and qualifications disclosed.

Lonsdale is not a registered tax agent. You should consider the appropriateness of this information having regard to your individual situation and seek taxation advice from a registered tax agent before making any decision based on the content of this document.